STATE OF ILLINOIS ILLINOIS COMMERCE COMMISSION

AMEREN ILLINOIS COMPANY d/b/a Ameren Illinois))) Docket No. 15-0142		
Proposed General Increase in Gas Delivery Service Rates and Revisions to Other Terms and Conditions of Service))))		
REBUTTAL TESTIMONY OF SEBA			
ON BEHALF OF THE PEOPLE OF THE STATE			
AG Exhibit 5.0			

AUGUST 6, 2015

ILLINOIS COMMERCE COMMISSION DOCKET NO. 15-0142 REBUTTAL TESTIMONY OF SEBASTIAN COPPOLA

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AG Exhibit 5.1Salary Survey Information Data Requests AG 9.10 & 9.11
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AG Exhibit 5.12 Damage Prevention Program Data Request AG 11.25
AG Exhibit 5.13 Gas Technology Institute and AGA Data Request AG 11.30

1 <u>I. INTRODUCTION</u>

- 2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
- 3 A. My name is Sebastian Coppola. My business address is 5928 Southgate Rd., Rochester,
- 4 Michigan 48306.
- 5 Q. ARE YOU THE SAME SEBASTIAN COPPOLA WHO FILED DIRECT
- 6 TESTIMONY ON JUNE 9, 2015 AND REVISED DIRECT TESTIMONY ON JULY
- 7 **7, 2015?**
- 8 A. Yes.
- 9 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS CASE?
- 10 A. I am responding to the Rebuttal Testimony of Ameren Illinois Company ("Ameren,"
- "AIC," or "Company") witnesses Marla Langenhorst, Michael Getz, Scott Verbest,
- 12 Randall Lynn, Ronald Stafford, and Stephen Colver.
- The absence of a discussion of other matters in my Rebuttal Testimony should not be taken
- as an indication that I agree with those aspects of AIC's testimony or the testimony of
- other parties filed in this docket. The narrow focus of my testimony is, instead, a
- 16 consequence of focusing on priority issues within the available resources.
- 17 Q. IS YOUR REBUTTAL TESTIMONY ACCOMPANIED BY ADDITIONAL
- 18 **EXHIBITS?**
- 19 A. Yes. I am sponsoring AG Exhibits 5.1 through 5.13.

20 II. <u>SUMMARY</u>

21 Q.	PLEASE PROVIDE A	A SUMMARY O	F YOUR	REBUTTAL	TESTIMONY.
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22 A. After reviewing the Company's Rebuttal Testimony and analyzing any additional 23 information provided in that testimony and additional responses to data requests, I have 24 concluded that the issues and disallowances proposed in my Revised Direct Testimony are 25 still valid with the exception of the following items: 26 I have revised my proposed reduction in recoverable Fuel Expense from 27 \$923,733 to \$491,722 to take into account a correction made by the Company 28 to schedules provided in discovery. 29 I have withdrawn AG Exhibit 2.12 REV and my proposed reduction to 30 recoverable AMS salaries and wages expense of \$658,000 due to a 31 duplication of expense included in separate schedules provided by the 32 Company. 33 I have revised my proposed reduction in recoverable Cross Bore Inspection 34 expense from \$220,000 to \$199,000 to take into account a correction made by 35 the Company to amounts provided in discovery. 36 I have withdrawn my proposed reduction of \$1.5 million for recoverable 37 Transmission Line Assessment expense. In its rebuttal testimony and 38 subsequent responses to data requests, the Company provided additional 39 information to support its proposed increase in expense for 2016. 40 The remainder of my Rebuttal Testimony provides further details on these and other 41 issues.

43 A. Wages & Salary Increase for Non-Union Employees PLEASE SUMMARIZE MS. LANGENHORST'S REBUTTAL TESTIMONY ON 44 Q. NON-UNION WAGES & SALARY INCREASES. 45 46 A. In her Rebuttal Testimony (Ameren Exhibit 31.0), Ms. Langenhorst states that the 47 historical annual increase in salaries and wages and the projected increases in 2015 and in 48 2016 are reasonable to be included in customer rates, because they are based on market 49 surveys, have been paid consistently in prior years, and help attract and retain qualified 50 employees. 51 Q. SHOULD THE FACT THAT THE COMPANY HAS INCREASED BASE WAGES & 52 SALARIES AT APPROXIMATELY 4% ANNUALLY IN PRIOR YEARS BE A 53 DETERMINING FACTOR FOR THE COMMISSION TO ALLOW RECOVERY OF 54 THESE COSTS IN RATES? 55 A. No. If the determining factor were "we paid for it, so we should recover it in rates," then 56 there is no limit to what should be recoverable. Such criteria would put the Commission in a position of rubber-stamping any pay practices the Company deems appropriate to its self-57 interest. This line of thinking seems evident on page 16, lines 319 to 326 of Ms. 58 59 Langenhorst's Rebuttal Testimony: O. Why is it more accurate to rely on the historical data in Ameren Exhibit 60 31.1 in forecasting a 2016 level of non-union wages? 61 62 A. In this instance, the historic trend of the level of non-union wages AIC actually 63 incurs is a more accurate and reliable indicator of total future non-union wage 64 expense requirements than historical Employment Cost Index or median

III. OPERATING EXPENSE ADJUSTMENTS

65 66 67 68		household income data. In fact, the Employment Cost Index is a broad, aggregate measure regarding the cost of labor and doesn't at all speak to an organization's need to effectively monitor and address pay as the business and environment changes throughout the year.
69		The Company has rejected the Employment Cost Index I had proposed in my Revised
70		Direct Testimony and wants to continue to use its historical and projected base pay
71		increase. The Employment Cost Index-Total Compensation of 2% that I proposed
72		measures total wage increases and is a good indicator of national wage inflation, both
73		historical and prospective. It is reasonable for the Commission to expect the Company to
74		manage its business within this wage inflation factor for base pay increases, particularly
75		when the Company also pays short-term incentive pay on top of the 4% base pay increases
76		each year.
77(Q.	IN HER REBUTTAL TESTIMONY (AMEREN EXHIBIT 31.0, PAGE 4 & 5, LINES
78		68-89), MS. LANGENHORST DESCRIBES THE MARKET SURVEYS THAT THE
79		COMPANY USED AS A BASIS FOR ITS PROPOSED NON-UNION PAY
80		INCREASE. WERE YOU ABLE TO VALIDATE THAT INFORMATION?
81	A.	No. In two data requests, included in AG Exhibit 5.1, I asked the Company to provide a
82		copy of the surveys to determine who the participating companies were, how the
83		information was compiled, and when. The Company could not provide this information
84		claiming confidentiality and proprietary restrictions, although confidential information
85		could have been provided under the protective order in this docket.
86		In addition, I asked the Company if it had determined what the actual salary and wage
87		increases had been for those companies for each year 2011 to 2014. This information is

important since it would validate whether or not projections of what the companies might do in the future actually came to pass. Companies often optimistically forecast what they may want merit increases to be in future years, but realities frequently set in and those increases do not actually happen. Ameren reported in its response that "actual salary and wage increases for the companies in the surveys during each year 2011 to 2014 are not reported in the surveys." On the other hand, the Employment Cost Index-Total Compensation, previously discussed, reflects the actual total pay increases, not expectations.

- 96 Q. IN HER REBUTTAL TESTIMONY (AMEREN EXHIBIT 31.0, PAGES 5-6, LINES
 97 90-106), MS. LANGENHORST STATES THAT IT WAS NECESSARY FOR THE
 98 COMPANY TO HISTORICALLY PAY A 3% MERIT INCREASE AND AN
 99 ADDITIONAL 1% IN OTHER PAY ADJUSTMENTS IN ORDER TO ATTRACT,
 100 RETAIN AND MOTIVATE TALENTED EMPLOYEES. HAS THE COMPANY
 101 PROVIDED ANY EVIDENCE THAT A LOWER PERCENTAGE INCREASE IN
 102 BASE PAY WOULD UNDERMINE THAT OBJECTIVE?
- A. No. The necessity to increase wages at a rate of 4% described in her Rebuttal Testimony seems to be the Company's own creation. No significant or unusual turnover in management or non-union ranks has been shown to warrant defining a 4% increase in base pay as "necessary" to attract, retain and motivate employees. AG Exhibit 5.2 includes data requests sent to the Company asking for such evidence. The Company reported that less than 20 employees since 2010 mentioned compensation as an issue. This is not out of the

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¹ AG Ex. 5.1, p. 2.

ordinary. It is also unlikely that employees would leave employment or be less attracted to the Company if it increased base wages at 2% in line with national wage inflation instead of the proposed 4%. Ms. Langenhorst also throws employee motivation into the mix, but the Company pays generous incentive bonuses to supposedly motivate employees to increase their performance. Therefore, her reasoning to justify 4% base pay increases is based on aspirational rhetoric, rather than factual data.

- Q. IN HER REBUTTAL TESTIMONY (AMEREN EXHIBIT 31.0, PAGE 6, LINES 107120), MS. LANGENHORST STATES THAT NON-UNION EMPLOYEES ARE NOT
 PROVIDED WITH AN ACROSS-THE-BOARD WAGE INCREASE AS OCCURS
 WITH THE UNION WORKFORCE, BUT INSTEAD ARE PROVIDED MERITBASED PAY-FOR-PERFORMANCE INCREASES. IS THIS STATEMENT
 SUPPORTED BY THE FACTS?
- No. In a data request, I asked the Company to provide the percentage of non-union employees who did not receive a merit pay increase in each year from 2011 to 2015. The response, included in AG Exhibit 5.3, shows that only approximately 1% to 4% of the employees do not receive a merit increase. In other words, 96% to 99% of all non-union employees at AIC and AMS routinely receive merit increases each year averaging 3%. This would indicate nearly an across-the-board wage increase and not a selective approach as implied in Ms. Langenhorst's Rebuttal Testimony. Furthermore, all those employees also are eligible to receive an annual incentive pay award. If employees are receiving merit increases for performance and also are being rewarded with incentive pay for performance, then that performance is being rewarded twice.

132 and is very reasonable when incentive pay also is added as another layer of compensation. 133 Q. IN HER REBUTTAL TESTIMONY (AMEREN EXHIBIT 31.0, PAGES 10-14, LINES 200-274), MS. LANGENHORST QUESTIONS THE VALIDITY OF THE 134 135 EMPLOYMENT COST INDEX AND THE PUBLISHER IHS THAT I REFERENCE 136 IN MY PROPOSED ADJUSTMENT. HOW DO YOU RESPOND? 137 A. IHS is a well-known and respected publisher of historical and forecasted economic data 138 sourced from government agencies, surveys and research. Their clients span the globe and 139 their published information is used by corporations, including utilities, for inclusion in 140 internal cost and revenue projections and to guide business decisions. Therefore, Ms. 141 Langenhorst' unfamiliarity with IHS more reflects her narrow scope of interest than the 142 reputation of the firm and the usefulness of its published data, including the Employment

A more tempered increase in pay at 2% to keep up with wage inflation makes more sense

Her description of the Employment Cost Index accurately describes the index as a quarterly and annual tracker of changes to the cost of labor, including wages, fringe benefits and bonuses. The underlying information is published by the Bureau of Labor Statistics within the U.S. Department of Labor.² It reflects changes in total compensation which, in the context of using the index to establish reasonable increases in base pay, is more generous to the Company because it also includes other forms of compensation. Ms. Langenhorst's statement that it is not intended to be a measure directly related to or

Cost Index-Total Compensation.

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² Ameren Exhibit 31.0 at 12:232-237.

151		predictive of changes in employment wages is contradicted by her description of what the
152		index represents. IHS reports the information provided by the Bureau of Labor Statistics
153		and then performs economic analysis to project where the index may move in future years.
154		Unfortunately, Ms. Langenhorst dismisses it because it does not support the higher
155		forecasted merit increases surveys she prefers to use. The task of the Commission is to set
156		rates that reflect a reasonable level of salary and wages expense. It is not to manage the
157		Company's pay practices by delving into merit increase surveys, as Ms. Langenhorst's
158		position suggests. Using a reliable labor cost factor such as the Employment Cost Index is
159		a reasonable, fact-based approach to setting base wage expense. This is similar to
160		adjusting other O&M expenses based on the Consumer Price Index or other inflation
161		index.
162	Q.	IN HER REBUTTAL TESTIMONY (AMEREN EXHIBIT 31.0, PAGES 14-17,
163		LINES 275-318 AND 338-359), MS. LANGENHORST DISAGREES WITH YOUR
164		REFERENCE TO THE COMPOUNDED PAY INCREASE OF 26% AMEREN HAS
165		AWARDED ITS EMPLOYEES, AS DISCUSSED IN YOUR REVISED DIRECT
166		TESTIMONY. SHE ALSO QUESTIONS THE USE OF THE ILLINOIS
167		HOUSEHOLD INCOME AS A FACTOR FOR THE COMMISSION TO
168		CONSIDER. HOW DO YOU RESPOND?
169	A.	On page 14, lines 281 to 292, Ms. Langenhorst tries to dissect the 4% average base pay
170		increases that the Company has granted to deflect attention from the issue. Whether base

4% annual rate. It is also unimportant whether some employees get more or less than the average rate within the context of setting a reasonable level of salary and wage expense in rates. Mathematically, it is also indisputable that compounding 4% annual base pay increases from 2011 to 2016 will increase base wages and salaries by more than 26% over the 5-year period. Ms. Langenhorst thinks this statement is too simplistic, but it is true and it is excessive when the average household in Illinois has seen its income stagnate and actually drop from \$60,841 in 2008 to \$56,210 in 2013.

Ms. Langenhorst further argues that the average household income should not be used in pay management best practices. This is a red herring. My Revised Direct Testimony makes no such argument. It simply points out that the Company and the Commission should use the Illinois average household income as a factor in deciding to temper recoverable base pay increases, particularly given the fact that it is the role of the regulator to balance ratepayer and utility interests while ensuring safe, reliable and least cost utility service. It is also misguided to say that the median household income has influenced the rate of increase in market pay used by the Company and therefore it has been factored in the 4% annual increases.³ Ms. Langenhorst offers no support for that claim. Lastly, it is disingenuous for Ms. Langenhorst to characterize my proposed 2% base pay increase as an "artificial pay reduction" in comparison to the Company's proposed 4% increase.⁴

On page 17, lines 338 to 349, of her Rebuttal Testimony, Ms. Langenhorst tries to dismiss the Illinois median average household income information as unreliable and contradictory. Both of these claims are false. The source of median household income is shown at the

³ Ameren Exhibit 31.0 at 15:306-313.

⁴ *Id.* at lines 313-315.

193 beginning of the U.S. Census Bureau American Community Survey (ACS) document, 194 which was provided to the Company in response to discovery. I have included a copy of 195 this document in AG Exhibit 5.4. The Company could have easily verified the source if it 196 were deemed questionable. Subsequent to reading Ms. Langenhorst's Rebuttal Testimony, 197 I asked the Company in a data request if it had any other information on Illinois household 198 income that contradicted my information. The Company did not provide any other 199 information. The Company's response to the data request is also included in AG Exhibit 200 5.4. 201 Ms. Langenhorst also stated in her rebuttal that the median household income in Illinois 202 has increased 6.11% since 2010. This statement is incorrect. As shown in AG Exhibit 5.4, 203 the median household income in 2010 was \$56,595 and \$56,210 in 2013. The numbers 204 during this time period show a decrease, not an increase, in median income. 205 Q. WHAT IS YOUR CONCLUSION FROM MS. LANGENHORST'S REBUTTAL 206 **TESTIMONY ON NON-UNION BASE PAY INCREASES?** 207 A. The Company continues to believe that a 4% annual increase in wages and salary is 208 reasonable and just. In her Rebuttal Testimony, Ms. Langenhorst frequently raises the 209 specter of losing talented people or of being unable to attract new employees unless it 210 receives the full requested 4% annual increase in base pay. The constant refrain borders on 211 being a scare tactic to try and extract recovery of a larger base pay increase without 212 offering any real evidence of a problem or potential problem. This is especially 213 bothersome when a 2% base pay increase would adequately reflect wage inflation and keep

employees at par with others in the labor force.

215		In summary, the Commission should be mindful of the compounding effect that large base
216		pay increases have on the Company's cost structure and the ultimate pass-through of those
217		costs in higher rates to customers. Ameren's customers are the same families who have
218		not seen their household income keep up with inflationary increases in their cost of living.
219	Q.	PLEASE SUMMARIZE MR. GETZ'S REBUTTAL TESTIMONY ON NON-UNION
220		WAGES & SALARY INCREASES.
221	A.	Mr. Getz's Rebuttal Testimony on non-union salary and wages (Ameren Exhibit 18.0,
222		pages 6-8, lines 116-162) is duplicative of the Rebuttal Testimony of Ms. Langenhorst and
223		Mr. Stafford. Therefore, it will not be addressed again here but only in responses to the
224		rebuttal testimony of those other witnesses.
225		
226		B. Non-Qualified Retirement Plans
227	Q.	PLEASE SUMMARIZE MS. LANGENHORST'S REBUTTAL TESTIMONY ON
228		NON-QUALIFIED RETIREMENT PLANS.
229	A.	Beginning on page 18 of her Rebuttal Testimony, Ms. Langenhorst disputes my
230		characterization of the plans as being applicable to a small, select group of highly-paid
231		employees and cleverly spins these plans as benefit restoration plans for those executives.
232		She generally states that these special plans provide benefits to customers by allowing AIC

company performance.⁵ 234 235 Q. IN HER REBUTTAL TESTIMONY (AMEREN EXHIBIT 31.0, PAGE 19, LINES 236 381-387 AND PAGE 20, LINES 405-409), MS. LANGENHORST STATES THAT 237 YOU HAVE INCORRECTLY DEFINED WHO PARTICIPATES IN THE NON-238 **QUALIFIED PLANS AND THAT YOU MISUNDERSTAND THE OVERALL** 239 PURPOSE OF THOSE PLANS. HOW DO YOU RESPOND? 240 There is no misunderstanding about the purpose of the non-qualified plans and who A. 241 participates in them. In data requests, I asked the Company to explain how I may have 242 misunderstood the purpose of the plans. In the responses, which are included in AG 243 Exhibit 5.5, the Company takes issue with my characterization that only a select few 244 highly-paid employees participate in the plans. Instead, the Company prefers to define the 245 participants as those employees whose qualified benefit is limited by the Internal Revenue 246 Code ("IRC"), which may include more employees than highly paid executives. 247 To clarify the issue, I asked the Company to disclose how many employees participate in 248 the non-qualified plans, the titles of those employees, and the compensation limit in the 249 IRC that triggers participation in the plans. 250 The Company responses, which are also included in AG Exhibit 5.5, provided the 251 following information:

to attract, retain and motivate executives to achieve superior customer satisfaction and

⁵ Ameren Exhibit 31.0 at 19:399-404.

- At AIC, 43 employees participate in the Ameren Corporation Deferred Compensation Plan and the Supplemental Retirement Plan. At AMS, the number of employees participating in each plan is 85.
 The employees that typically participate in these plans are Presidents, Senior
- 3. The compensation threshold that triggers participation in the plans is either \$210,000 or \$265,000 depending on which section of the IRC is applicable.

Vice Presidents, Vice Presidents, Senior Directors, Directors and Controllers.

This information reaffirms the point made in my Revised Direct Testimony that a relatively small group of highly-paid executives participate in the non-qualified benefit plans, as compared to the total number of AIC employees, which the Company listed as 4,562 as of the end of September of 2014.⁶ Ms. Langenhorst's attempt to obfuscate the issue by claiming otherwise is very apparent and not credible.

Whether they are called restoration plans or non-qualified plans, the result is the same. Participants in the plans are receiving benefits determined by tax law to be in excess of reasonably allowed levels for inclusion in regular benefit plans and are not deductible in the Company's tax return. These benefits are very costly to the Company and unfairly burden customers with higher costs. Despite Ms. Langenhorst's general statement that recovery of these costs will help attract, retain and motivate executives, and supposedly benefit customers, the Company has not provided any evidence to support any tangible benefits to customers.

The Commission should disallow recovery of these costs from AIC's rates, as many regulatory commissions have done in other states.

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⁶ See AIC Schedule 11.2B.

274	Q.	PLEASE SUMMARIZE MR. STAFFORD'S REBUTTAL TESTIMONY ON THE
275		NON-QUALIFIED RETIREMENT PLAN.
276	A.	Again, Mr. Stafford's Rebuttal Testimony on this matter on page 20 is duplicative of Ms.
277		Langenhorst's and I will not re-address it.
278		
279		C. Number of Employees
280	Q.	IN HIS REBUTTAL TESTIMONY (AMEREN EXHIBIT 18.0, PAGES 8-9, LINES
281		167-174), MR. GETZ DISCUSSES THE FACT THAT EMPLOYEE HEADCOUNT
282		WAS A CONTESTED ISSUE IN THE COMPANY'S PRIOR RATE CASE IN
283		DOCKET NO. 13-0192. IS THAT ISSUE RELEVANT TO THIS RATE CASE AND
284		SHOULD THE COMMISSION GIVE ANY WEIGHT TO IT?
285	A.	No. With regard to the number of employees and the related costs, each rate case stands
286		on its own because the facts and circumstances are unique to each case. This is not an
287		argument of policy or practices but of specific numbers and costs included in the rate case
288		filing. Therefore, the recoverable headcount that the AG proposed last time and what the
289		Commission decided should not necessarily determine the outcome in this case when the
290		facts and circumstances in this case support a different result. The Commission should not
291		give any weight to this section of Mr. Getz's Rebuttal Testimony.
292		It is also true that in the same section of the Commission's final order in that 2013 rate
293		case, it concluded that "the Company's forecast documentation was not as complete,
294		detailed or easy to comprehend as it could have or should have been. In that regard, the

Commission also recognizes the Company's commitment to improve its documentation in the future. The Commission expects that the Company will make the improvements as indicated, and hereby directs the Company to do so." Although I was not involved in the 2013 case, I have observed, as I described in my Revised Direct Testimony, that the Company's documentation of its headcount forecasting in the instant case still lacks substance and specificity, contrary to the Commission's previous directive.

Q. IN HIS REBUTTAL TESTIMONY (AMEREN EXHIBIT 18.0, PAGES 9, LINES 175182), MR. GETZ STATES THAT THE COMPANY HAD ALREADY INCLUDED
THE NEGATIVE DOLLARS FOR VACANT POSITIONS IN ITS REVENUE
REQUIREMENT. DID THE COMPANY PROVIDE SUFFICIENT
INFORMATION TO VALIDATE THAT THOSE AMOUNTS WERE REMOVED
FROM THE COMPANY'S REVENUE REQUIREMENT CALCULATION?

No. In Data Request AG 11.02, I asked the Company to provide the calculation of the negative amounts for the vacant positions and also provide the reference number of the Company's filed schedule or workpaper where those negative amounts were included as a reduction to O&M. The Company's response, which is included in AG Exhibit 5.6, provided the calculation but no references to the filed exhibits, schedules or workpapers where those negative amounts were included. Therefore, it is not possible to validate that the cost of those 21 vacant positions was removed from the O&M and capitalized costs. As such, my conclusion and recommendation to the Commission is to remove the costs I

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⁷ Order, Docket No. 13-0192, December 18, 2013, at 34.

⁸ AG Exhibit 2.0 REV at 9-10:146-173.

315		have outlined in my Revised Direct Testimony and in AG Exhibit 2.5 from the
316		Company's revenue requirement.
317	Q.	PLEASE SUMMARIZE MR. COLYER'S REBUTTAL TESTIMONY ON THE
318		NUMBER OF EMPLOYEES.
710		THE PART OF LIVE DO FILLS.
319	A.	Mr. Colyer's Rebuttal Testimony (Ameren Exhibit 22.0, pages 11-15, lines 223-308) on
320		this matter is duplicative of Mr. Getz's Rebuttal Testimony. I have addressed this matter
321		in response to Mr. Getz's rebuttal. Therefore, I will not address it again here.
322		
323		D. Fuel Costs
324	Q.	IN HIS REBUTTAL TESTIMONY (AMEREN EXHIBIT 18.0, PAGES 10, LINES
325		193-207), MR. GETZ DISCUSSES THE FACT THAT THE COMPANY PROVIDED
326		CORRECTED INFORMATION ON FUEL COST ALLOCATIONS AND THAT
327		ASSUMED FUEL PRICES ARE LOWER THAN STAFF'S FORECAST FOR 2016.
328		WHAT IS YOUR RESPONSE?
329	A.	It appears that I was not served with the Company's revised responses to data requests
330		ENG 8.04 and ENG 8.05 prior to filing my Revised Direct Testimony. After reading Mr.
331		Getz's Rebuttal Testimony, I obtained a copy of the revised data responses and I have
332		corrected my calculations using the updated information from Ameren's responses to data
333		requests ENG 8.04R and ENG 8.05R. AG Exhibit 5.7 shows the revised reduction to
334		recoverable O&M expense of \$491,722 for both gasoline and diesel fuel costs. In

comparison, the amount previously calculated in AG Exhibit 2.11 was a reduction of \$923,733.

Q. DID YOU CHANGE YOUR 2016 PRICES FOR GASOLINE AND DIESEL FUEL?

No. I still believe that the prices I used in the calculation of the Fuel cost adjustment are reasonable and more appropriate than the forecasted numbers used by Staff, which the Company has accepted. The prices I have utilized to calculate the 2016 gasoline and diesel fuel costs are based on the *actual* prices experienced by the Company during the first four months of 2015. Those prices are approximately \$2.29 and \$2.78 for gasoline and diesel fuel, respectively. In his Direct Testimony, Staff witness Lounsberry used a price of \$2.80 for gasoline and \$3.24 for diesel fuel. The source of Staff's fuel prices was the EIA Short Term Price Outlook for 2016 as of April 2015. Recently, Staff obtained the July 2015 EIA Short Term Price outlook of 2016 prices, which have dropped to \$2.55 for gasoline from \$2.80 in April, and for diesel, to \$3.03 from \$3.24. It appears that Staff may recommend a further downward adjustment to the cost of fuels in rebuttal testimony, moving its adjustments to the Company's forecast in a direction closer to what I have proposed.

Although Mr. Getz criticized the use of four months of price data, he did not point out that those prices had changed significantly for other months of 2015. Furthermore, it is preferable in this situation to use actual prices experienced by the Company than forecasted national average prices. In my opinion, with the glut of crude oil not likely to diminish in the near future, the forecasted price of gasoline and diesel fuel will continue to decline

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⁹ ICC Staff Ex. 5.0 at 5:98, 8:155.

356 toward current levels in the coming months, making any adjustments to the fuel prices I 357 have recommended in my Revised Direct Testimony unnecessary. 358 359 **E. FERC Account Number Issues** 360 Q. IN HIS REBUTTAL TESTIMONY (AMEREN EXHIBIT 18.0, PAGES 10-14, LINES 361 208-290), MR. GETZ SEEMS TO ADMIT THAT SOME PROBLEMS EXIST WITH 362 THE SAME TYPE OF COSTS BEING CHARGED TO DIFFERENT FERC 363 ACCOUNTS FROM YEAR TO YEAR AND FROM THE ANNUAL BUDGET. YET, 364 HE DISMISSES THE PROBLEM AS NOT SIGNIFICANT AND NOT NEEDING ANY CORRECTIVE ACTION. WHAT IS YOUR RESPONSE? 365 I am somewhat surprised by the reaction of Mr. Getz to my direct testimony on this 366 A. subject. I would have expected the Company to be more humble and understanding of the 367 368 problems created by its errors in charging the same type of costs to different FERC 369 accounts, and then work to explain year-over-year changes and budget variances. These 370 problems also must be taxing on Company personnel who need to keep track of the many 371 misclassifications and having to explain them repeatedly both internally and externally. 372 I would have expected a more constructive response indicating that the Company was 373 working on corrective actions to limit the number of misapplied charges by implementing 374 new procedures, controls and training of employees. Instead, Mr. Getz asks for specific

375 guidance from outsiders on additional steps that AIC should take to improve its own systems. 10 376 Nevertheless, it was encouraging to read near the end of Mr. Getz's Rebuttal Testimony¹¹ 377 378 that beginning next year, the Company will budget O&M by FERC account in order to 379 better match budget to actual costs. 380 Q. IN HIS REBUTTAL TESTIMONY (AMEREN EXHIBIT 18.0, PAGES 14, LINES 381 279-290), MR. GETZ SEEMS BAFFLED BY YOUR REQUEST FOR THE 382 COMPANY TO PRESENT INFORMATION IN SUPPORT OF TESTIMONY AND 383 RESPONSES TO DATA REQUESTS THAT PRESENT THE EXPLANATION OF 384 VARIANCES ON A PRO-FORMA BASIS OVER THE YEARS ON A 385 COMPARABLE BASIS. WHAT IS YOUR RESPONSE? 386 A. By mentioning the number of pages of schedules and workpapers filed by the Company in 387 this case, Mr. Getz seems to confuse quantity with quality of information. Good analysis 388 can only be performed with financial information that is consistently accounted for year 389 over year so that underlying trends and unusual cost variances can be identified, explained 390 and corrective action taken. Currently, the Company has shifted the burden of dealing 391 with misapplied charges to Staff and intervenors, who need to analyze financial 392 information to determine why the Company's forecasted test year numbers vary from 393 historical levels. It is critical in order to establish fair and reasonable rates that cost data 394 be presented and analyzed in a consistent manner.

¹⁰ Ameren Exhibit 18.0 at 10:208-212.

¹¹ Id. at 13:260-268.

It should not be too difficult for Mr. Getz or other Company witnesses to understand that if financial information has not been recorded consistently from year to year, it needs to be presented on a pro-forma basis to make it consistent. In other words, Ameren should present the information in a form that is consistent and comparable for all the periods presented for each of the FERC accounts where charges were misapplied from one year to the next. Next to the pro-forma information, the Company should still detail the information as it was actually booked. This form of presentation should be done until the Company has significantly resolved the problem and there are no material misapplied charges from year to year. As an example, similar pro-forma presentations are done frequently when a company buys another company or divests itself of a division and restates historical numbers to make the presentation of comparative financial information consistent and useful. If the Company cannot see the importance of this practice, the Commission should order it to do so in order to ensure the limited time and resources of both the Commission and Intervenors is not wasted.

F. Incentive Compensation

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- 412 Q. PLEASE SUMMARIZE MR. VERBEST'S REBUTTAL TESTIMONY ON
- 413 **INCENTIVE COMPENSATION.**
- 414 **A.** Mr. Verbest's Rebuttal Testimony (Ameren Exhibit 28.0) vehemently disagrees with my
 415 position that recovery of incentive compensation costs should be limited to those key

416		performance indicators ("KPI") that are directly related to visible customer benefits. Mr.
417		Verbest reiterates that incentive compensation is a well-established layer of compensation
418		paid by other companies and as such is a legitimate cost of doing business and should be a
419		recoverable expense. He believes that the 67 or so KPIs that the Company tracks to
420		determine employee performance is superior to other performance measuring mechanisms.
421		He is emphatic that in achieving those KPIs, the Company delivers benefits to customers
422		despite the lack of evidence of any quantifiable benefits.
423	Q.	IN HIS REBUTTAL TESTIMONY (AMEREN EXHIBIT 28.0, PAGE 4, LINES 67-
424		78), MR. VERBEST STATES THAT YOUR PROPOSED INCENTIVE
425		COMPENSATION ADJUSTMENT IS UNFOUNDED, THAT THE INCENTIVE
426		COMPENSATION PROPOSED BY AIC WILL PROVIDE OVERALL BENEFITS
427		TO GAS CUSTOMERS AND YOUR ALLEGED DISAGREEMENT WITH THE
428		COMMISSION STANDARD IS NOT A PROPER BASIS FOR DISALLOWANCE.
429		WHAT IS YOUR RESPONSE?
430	A.	First of all, my proposed adjustment to the Company's proposed amount of compensation
431		included in its revenue requirement is well-founded and fully explained in 10 pages of
432		Direct Testimony plus four exhibits. I fully analyzed Mr. Verbest's Direct Testimony and
433		exhibits plus discovery responses provided to AG and Staff data requests. The accusation
434		that the proposed adjustment is unfounded is false.
435		Mr. Verbest mentions that the incentive compensation costs I propose to disallow are tied
436		to the achievement of operational goals that provide overall benefits to AIC's customers.
437		However, when asked to explain what he means by "overall benefits" or what they are, the

answer is simply a repetition of the rebuttal testimony that "The incentive compensation is expected to primarily benefit gas customers." Furthermore, when asked to explain whether O&M expenses have increased or decreased since 2011 or have increased at or below the CPI rate of inflation, Mr. Verbest refused to answer the questions. He also refused to provide any information as to how AIC's gas distribution rates stack up against peers in surrounding Midwest states or how customer service levels measure against peer utilities in the region. AG Exhibit 5.8 includes the Company's objections to providing this critical information. These customer-focused measures would be better indicators of customer value generated by the Company than merely broad statements that "achieving operational goals provide overall benefits." Mr. Verbest alleges that I have proposed to disallow a large portion of the Company's proposed incentive compensation costs because I disagree with the Commission's standard. This is an incorrect interpretation of my Revised Direct Testimony on incentive compensation. I have taken issue with the Company's methodology of determining incentive compensation payouts based on a myriad of KPIs that are mainly departmental goals and not measures of operating performance that are directly visible and beneficial to customers. My recommendation to the Commission was to undertake a critical review of the Company's incentive compensation costs and request more specific and concrete evidence of the real benefits achieved for customers.¹² There is no disagreement with the Commission standards to measure operational improvements and tie them to customer benefits. The issue is what operational measures are more appropriate to trigger incentive

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¹² AG Exhibit 2.0 REV at 18:337-361.

460 benefits are being achieved for customers. 461 Q. IN HIS REBUTTAL TESTIMONY (AMEREN EXHIBIT 28.0, PAGES 4-5, LINES 79-95), MR. VERBEST STATES THAT IN YOUR ANALYSIS OF THE KPIS AND 462 PAYOUTS YOU RELIED ON THE WRONG LIST OF KPIS. WHAT IS YOUR 463 464 **RESPONSE?** 465 A. To assess how the incentive compensation program works, in data request AG 5.53, I asked the Company to provide the actual KPIs tracked each year from 2010 to 2014, as 466 467 well as the threshold, target, and maximum payout levels, the actual achieved level of performance and other information. AG Exhibit 5.9 (CONFIDENTIAL) includes this data 468 request and the accompanying responses. 13 The Company provided some of the 469 information requested but only for 2013 and 2014. The Company also provided the KPIs 470 471 for 2016 with the related forecasted incentive compensation payments assuming the 100% 472 target performance was achieved. 473 It was important for me to analyze the historical information for at least 2013 and 2014 to 474 establish what level of actual performance was achieved relative to the established target 475 and threshold performance levels. It was also important to understand how the Company 476 actually implemented the plan and how incentive awards were granted. Although some of 477 the details are still lacking, as I will explain later in this Rebuttal Testimony, it is apparent 478 from reviewing the 2013 and 2014 information that the Company actually grants awards ¹³ The KPIs used in the calculation of the 2014 incentive payments, provided by the Company in response to DR AG 5.53 Attach 2, were previously provided in AG Exhibit 2.6. The 2013 KPI, which were provided

compensation payouts recoverable in rates and how to demonstrate what real, quantifiable

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of the files.

as Attach 1 to AG 5.53 have not been provided because they are similar to the 2014 KPIs and the large size

479		on a total company basis, including both gas and electric KPIs, and then allocates a portion
480		of the incentive compensation costs to its electric and gas divisions.
481		Despite Mr. Verbest's statements in his Rebuttal Testimony, I am well aware that for the
482		purpose of this rate case, the Company selected the KPIs applicable to the gas business at
483		AIC to calculate the amount of incentive compensation included in the revenue
484		requirement. My analysis and disallowance of a large portion of the 2016 incentive
485		compensation costs were based on only the gas information provided by the Company.
486		Attachments 3 and 4 to Ameren's response to data request AG 5.53, which are included in
487		AG Exhibit 5.9 (CONFIDENTIAL), were the source for the analysis shown in
488		Confidential AG Exhibit 2.7. Mr. Verbest knows this, but in his Rebuttal Testimony he
489		chose instead to ignore that fact and attempts to discredit my analysis of the KPIs and the
490		incentive compensation program.
491		As another red herring, Mr. Verbest seems concerned that I did not mention Ameren
492		Exhibit 14.2 in my testimony and seems to imply that I must not have reviewed it. His
493		conclusion is wrong. I reviewed Ameren Exhibit 14.2, but it was not necessary to mention
494		it in my testimony because the response to data request AG 5.53, Attachments 3 and 4,
495		provided the same list of KPIs for 2016 with assigned dollar amounts and was more useful
496		than Mr. Verbest's Exhibit 14.2.
497	Q.	IN HIS REBUTTAL TESTIMONY (AMEREN EXHIBIT 28.0, PAGES 7-9, LINES
498		130-177), MR. VERBEST DISCUSSES AT LENGTH THE NECESSITY TO PAY
499		INCENTIVE COMPENSATION TO ATTRACT, RETAIN AND MOTIVATE
500		EMPLOYEES. WHAT IS YOUR RESPONSE?

501	A.	I do not disagree that incentive compensation, if properly designed, can be an appropriate
502		tool to motivate employees to achieve specific goals and raise their performance level. It
503		can also help attract and retain talented employees in certain career fields where there is
504		competition for talent. This is not the case with all employees eligible for incentive
505		payments as the Company seems to imply.
506		On page 9, lines 178-191, of his Rebuttal Testimony, Mr. Verbest has admitted that the
507		Company did not cut base pay when it began its incentive compensation program.
508		Therefore, by design, incentive compensation became an added layer of compensation.
509		The critical question for the Commission to consider then is, did AIC customers get added
510		value for paying this additional cost of doing business? That question has not been
511		answered by AIC because no quantifiable evidence has been presented to show that added
512		value has been created to more than offset the cost of paying incentive compensation. In
513		fact, the Company has presumed in including \$7.9 million of incentive compensation costs
514		in the 2016 revenue requirement that 100% of the target level of performance of its KPIs
515		would be achieved. Therefore, the Company will recover compensation costs irrespective
516		of the actual level of performance that will be achieved in 2016.
517		Some of the evidence actually shows that the Company's KPIs may not be creating
518		sufficient customer value to justify paying the Company's proposed level of incentive
519		compensation. As I described in my Direct Testimony (AG Ex. 2.0 REV, at pages 5-6),
520		O&M expenses since 2011 have increased at a rate much higher than the inflation rate.
521		This would indicate that the operating goals included as KPIs in the incentive
522		compensation plans, and touted by the Company for driving operating efficiencies, are not
523		creating the anticipated results and value for customers. As stated earlier, the Company

524		has not presented any evidence of achieving competitive results related to customer rates
525		and customer service levels versus peer utilities. Such comparisons would better indicate
526		creation of relative value for its customers. The only evidence we have is the achievement
527		of a large array of individual department goals to trigger incentive compensation payments
528		with no overall measures of performance that are visible and of value to customers.
529	Q.	IN HIS REBUTTAL TESTIMONY (AMEREN EXHIBIT 28.0, PAGES 16-17, LINES
530		342-376), MR. VERBEST STATES THAT THE COMPANY BASED SOME OF ITS
531		KPIS ON INDUSTRY DATA AND THAT YOU DID NOT ACKNOWLEDGE IT.
532		WHAT IS YOUR RESPONSE?
533	A.	Mr. Verbest mentions that it used AGA data to develop the Preventable Motor Vehicle
534		Incidents KPI and it used state and federal standards for the Meet Gas Leak Response KPI.
535		The fact that the Company used two external benchmarks out of 67 KPIs is more troubling
536		than impressive. More importantly, where are the external measures on O&M efficiency,
537		customer rates, and customer service levels relative to peer utility companies? Those are
538		truly key performance indicators that need to be benchmarked against other utilities to
539		determine how the Company's performance stacks up against its peers.
540	Q.	IN THE REMAINDER OF HIS REBUTTAL TESTIMONY (AMEREN EXHIBIT
541		28.0, PAGES 18-30), MR. VERBEST COVERS A NUMBER OF TOPICS,
542		INCLUDING THE USE OF SAFETY KPIS, HOW ITS OPERATING KPIS
543		SUPPOSEDLY BENEFIT CUSTOMERS, HOW ITS INCENTIVE PLAN
544		APPROACH COMPARES TO OTHER COMPANIES AND THE COMMISSION

STANDARD FOR RECOVERY OF INCENTIVE COMPENSATION COSTS. DO

YOU WISH TO RESPOND TO SOME OF THESE ISSUES?

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Yes. This remaining section of Mr. Verbest's Rebuttal testimony is mostly repetitive of issues raised in the first part of his rebuttal, which I have already addressed. However, there are a few items that require clarification. First, with regard to safety KPIs, I am not opposed to them. I believe that in certain areas of the Company, they are very important to keep employees focused on avoiding injuries or fatalities. Nevertheless, I still find it unacceptable that the top officers of the Company would be focused only on Lost Workday Away Incidents and not on other KPIs that deliver value to customers. This would be like rating a coach of a football team based solely on the number of player injuries he prevented instead of the number of win or losses for the season. Second, the approach taken by the Company of paying for individual achievement of goals is not typical. Although the Company claims that it uses 67 different KPIs, I still believe that in actuality the number is much larger than that. As I stated in my Direct Testimony and as evident from Ameren Exhibit 14.1 and AG Exhibit 5.9, most of the KPIs are internal department goals, such as: getting projects done on time, closing the books by a certain date, filing tax returns on time, et cetera. I am quite certain these are not the type of operating measures that the Commission expects the Company to use to trigger incentive payments. Yet, the Company's approach uses this large array of internal departmental goals to accumulate the total incentive compensation payments it seeks to recover in rates. The result is that the pieces do not necessarily add up to overall accomplishments of key performance measures, such as lower O&M costs, competitive rates and superior customer

567 service relative to other utilities that the Commission and customers would and should 568 expect, given customer financing of these expenses. 569 Third, Mr. Verbest discusses the Commission's standard or policy in allowing recovery of 570 incentive compensation. As I stated earlier in my rebuttal response, I support the basic 571 premise of the Commission's standard to tie recovery of incentive compensation to the 572 achievement of operating performance measures. However, selecting the appropriate 573 operating measures that matter to customers and reflect quantifiable customer benefit is the 574 key point. In prior Ameren gas rate cases, the records may have lacked sufficient analysis 575 of what the triggering KPIs were that determined the amount of incentive compensation 576 recovered in rates. Hopefully, my Revised Direct and this Rebuttal Testimony has shed 577 more light on the necessity to focus the Company on a select group of performance 578 measures that are important, are more visible, and create direct value for customers. In 579 order to ensure that standard, evidentiary proof of quantifiable benefits created by the 580 achievement of key operating measures -- particularly with regard to O&M cost, limited 581 rate base growth, customer rates and customer service levels relative to peer utilities --582 should be required by the Commission. 583 If the Company shows a consistent record of achievement of those operating performance 584 measures and also evidence of customer value created above the cost of incentive 585 compensation, then recovery of incentive costs should be allowed. Otherwise, the Commission should deny recovery in part or entirely. As support for this point, I have 586 587 attached AG Exhibit 5.10, which includes a 2011 study that analyzes the issues of 588 incentive compensation faced by public utility regulatory commissions in various states 589 and how some regulators have dealt with them.

In summary, I reaffirm the recommendations in my Revised Direct Testimony that the Commission allow recovery of only \$2 million of incentive compensation costs and disallow the remaining \$5.9 million requested by the Company. Furthermore, the Commission should require the Company to clearly demonstrate in future cases that the amount of incentive compensation recoverable in rates is directly related to performance measures that improve customer service and result in competitive rates relative to other gas companies for gas customers of the utility. Toward that end, the Commission should require that, beginning with the next rate case filing, the Company provide a cost/benefit analysis showing clear evidence that financial benefits derived from achieving customer-focused performance measures overwhelmingly exceed the cost of incentive compensation requested in rates.

G. Pension and OPEB Costs

AND OPEB COSTS.

- Q. PLEASE SUMMARIZE MR. LYNN'S REBUTTAL TESTIMONY ON PENSION
- A. Mr. Lynn's Rebuttal Testimony (Ameren Exhibit 29.0) rejects my proposed adjustments to

 2016 pension and Other Post-Employment Benefits ("OPEB") expense and describes how

 the Company followed consistent application of U.S. GAAP in calculating those expenses

 for 2016 and future years.

609	Q.	ARE YOU CONVINCED BY MR. LYNN'S REBUTTAL TESTIMONY THAT THE
610		DECLINE IN PENSION AND OPEB COSTS FOR 2016 AND THE YEARS 2017-2019
611		HAS BEEN ACCURATELY CALCULATED?
612	A.	No. Mr. Lynn's Rebuttal Testimony only discusses in general terms certain procedures and
613		approaches utilized to calculate pension and OPEB costs and the components that are part
614		of those calculations. Unfortunately, Mr. Lynn did not provide any specific calculations of
615		how the 2016 pension and OPEB expense were determined, or for that matter the 2017
616		through 2019 expense amounts. He provided no explanation of why these expenses decline
617		after 2016, and in some cases become negative, which was the key point of my Direct
618		Testimony on these matters.
619		Subsequent to the filing of Mr. Lynn's Rebuttal Testimony, I again requested that the
620		Company provide very specific information about the calculation of the pension and OPEB
621		costs for 2016 through 2019 in various data requests. AG Exhibit 5.11 includes some of
622		the data requests and Company responses. Although the Company provided some detailed
623		components, it did not provide the specific calculations of how the 2016 pension and
624		OPEB expense was determined. The Company also refused to provide the calculations of
625		how these expenses were calculated for each year 2017-2019. The Company refused to
626		explain why pension and OPEB costs varied each year and turned negative from 2016 to
627		2019. The Company provided the actual asset and liabilities gain and losses from 2008 to
628		2014, but did not provide the amounts that it forecasted would be amortized in 2016 and
629		future years.

649		PENSION AND OPEB EXPENSE.
648	Q.	PLEASE SUMMARIZE MR. STAFFORD'S REBUTTAL TESTIMONY ON
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646		supporting its forecasted expense for 2016.
645		Company's revenue requirement given AIC's refusal to provide the calculations
644		consider removing the entire amount of pension and OPEB expense included in the
643		associated with the forecasted pension and OPEB amounts. The Commission also should
642		Testimony of removing \$4.1 million of O&M expense and \$2.8 million of capital costs
641		I recommend that the Commission accept the proposed adjustments in my Revised Direct
640		and calculations.
639		costs included in the 2016 revenue requirement are accurate and supported by valid data
638		Testimony and has not conclusively demonstrated that the forecasted pension and OPEB
637	A.	My conclusion is that the Company has not adequately rebutted my Revised Direct
636		COMMISSION?
635	Q.	WHAT IS YOUR CONCLUSION AND RECOMMENDATION TO THE
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634		about the accuracy of the projected expense for the 2016 test year.
633		information after multiple requests and opportunities to do so raises additional concerns
632		significantly after 2016. The reluctance by the Company to openly provide the necessary
631		requests have answered the question of why pension and OPEB expenses decline
630		In summary, neither Mr. Lynn's Rebuttal Testimony nor his subsequent responses to data

650	A.	In his Rebuttal Testimony (Ameren Exhibit 17.0, pages 18-19, lines 365 to 410), Mr.
651		Stafford repeats the Rebuttal Testimony of Mr. Lynn and adds no significant new
652		information. He discusses his non-legal interpretation of staying within the 2016 test year
653		and not reaching into future years. He also is concerned with the accuracy of my
654		adjustment to pension and OPEB expense. Yet, he offers no supporting calculations or
655		additional information to shed more light on the significant decline of pension and OPEB
656		costs for 2016 and future years.
657		In summary, the Commission should disregard Mr. Stafford's testimony on this matter as
658		being duplicative and uninformative.
659		At lines 472 to 484 of his Rebuttal Testimony, Mr. Stafford criticizes the approach I have
660		taken in calculating my proposed adjustments to pension and OPEB expense for 2016.
661		Although he states he does not agree with any of my proposed adjustments, he proceeds to
662		find fault with my approach and identifies \$2 million in cost reductions if done differently.
663		If Mr. Stafford had provided the actual calculations of how pension and OPEB expenses
664		had been calculated for each year from 2016 to 2019, I would have been more sympathetic
665		to his suggestions. But he did not provide any additional information, only criticism.
666		Therefore, the Commission should give no weight to his rebuttal testimony on this matter.
667		
668		H. Alleged Errors in AG Adjustment Calculations
669	Q.	PLEASE SUMMARIZE MR. STAFFORD'S REBUTTAL TESTIMONY ON
670		ERRORS HE CLAIMS HE HAS FOUND.

671	A.	In his Rebuttal testimony (Ameren Exhibit 17.0, pages 20-23, lines 417-484), Mr. Stafford
672		alleges four errors in my testimony and exhibits. I will address each individually.
673		First, with regard to the misallocation of adjustments to two rate zones, I filed revised
674		testimony on July 7, 2015 correcting those errors in AG Exhibits 2.10 REV, 2.12 REV,
675		and 2.13 REV.
676		Second, on lines 430 to 446 of his Rebuttal Testimony, Mr. Stafford suggests that I should
677		have used the actual 2014 rate of wage increase of approximately 4% in calculating my
678		adjustment in AG Exhibits 2.4 and 2.12 REV. Although this is his preference, it is not an
679		error. As I have explained in both my Revised Direct and in this Rebuttal Testimony, I
680		consider the 4% annual rate of wage increases to be excessive – and that includes the
681		Company's 2014 result. So there is no correction to be made here.
682		Third, on lines 447-458 of his Rebuttal Testimony, Mr. Stafford points out that the
683		schedule I used to calculate salary and wage adjustments for AIC (based on the Company's
684		response to data request TEE-3.03) in AG Exhibit 2.4 includes non-union salary and wages
685		data for AMS. To remove the duplication, I am withdrawing AG Exhibit 2.12 REV and
686		the proposed O&M adjustment of \$658,000.
687		
688		I. Gas Distribution and Transmission Operations
689	Q.	PLEASE SUMMARIZE MR. COLYER'S REBUTTAL TESTIMONY ON GAS
690		DISTRIBUTION AND TRANSMISSION O&M COSTS.

691	A.	In his Rebuttal Testimony (Ameren Exhibit 22.0, pages 11-15, lines 223-308), Mr. Colyer
692		addresses the six O&M cost adjustments I have proposed: (1) Sewer Cross Bore
693		Inspections, (2) Gas Records Management, (3) Corrosion Control Painting, (4)
694		Transmission Lines Assessment and Inspection, (5) Damage Prevention, and (6) Gas
695		Technology Institute Membership. In many areas he expands his discussion from his
696		Direct Testimony and provides additional information to the reasons for proposing
697		increases in O&M costs over historical levels. However, he dismisses my proposed
698		adjustments and continues to argue for the O&M levels proposed by the Company.
699	Q.	ON PAGE 16, LINES 326 TO 341 OF HIS REBUTTAL TESTIMONY, MR. COLYER
077	Q.	ONTAGE 10, LINES 320 TO 341 OF HIS REDUTTAL TESTIMONT, MR. COLTER
700		POINTS OUT THAT THE COMPANY PROVIDED AN INCORRECT
701		FORECASTED AMOUNT FOR SEWER CROSS BORE INSPECTION EXPENSE.
702		WHAT IS YOUR RESPONSE?
703	A.	I accepted the Company's correction and revise my adjustment from a \$220,000 reduction
704		in recoverable expense to \$199,000.
705	Q.	IN THE REMAINDER OF HIS REBUTTAL TESTIMONY ON SEWER CROSS
706		BORE INSPECTIONS, MR. COLYER ARGUES THAT THE COMMISSION
707		SHOULD APPROVE THE ENTIRE FORECASTED AMOUNT OF \$957,000 FOR
708		2016. HOW DO YOU RESPOND?
709	A.	I have reviewed Mr. Colyer's Rebuttal Testimony on this topic, as well as additional
710		responses to data requests issued to the Company subsequent to the filing of his rebuttal.
711		This program appears to have begun in 2013 and is still being defined. In a data request, I

712 asked the Company to provide a plan of implementation for the program showing the 713 locations to be inspected and repaired by year, and related amounts to be spent. In its 714 response, the Company provided a forecast of dollars to be spent through 2019, which is 715 simply a 1% annual escalation of the dollars projected to be spent in 2016. The number of 716 pipe laterals to be inspected started at 279 in 2013 and escalated to 1,787 in 2014. For 717 2015, the Company plans to increase the number of inspections to 2,888 and then increase 718 them again to 4,089 in 2016. From 2017 to 2019, the number of inspections remains at a level of approximately 4.000 per year. 14 719 720 The Company has not presented a comprehensive plan to address this inspection program 721 over the long term with appropriate identification of priority locations and allocation of 722 resources. The Company has stated that there are potentially over 200,000 services that 723 could be subject to inspection. At approximately 4,000 per year, this could be a 50-year 724 program. The Company's testimony lacks a discussion of the relevant work plan, 725 scheduling and budgetary cost control information. 726 My conclusion is that until the Company better defines the program, the Commission 727 should only approve the \$758,000 level planned for 2015, which is the same amount I 728 recommended in my Revised Direct Testimony. 729 Q. ON PAGES 20-24, LINES 417 TO 524, OF HIS REBUTTAL TESTIMONY, MR. 730 COLYER DISCUSSES AT LENGTH THE GAS RECORDS MANAGEMENT 731 PROGRAM AND HOW THE 2016 FORECASTED EXPENSE OF \$507,000 WILL 732 BE SPENT. WHAT IS YOUR RESPONSE?

¹⁴ AIC response to data request AG 11.07.

733 In his Rebuttal Testimony and subsequent responses to data requests, Mr. Colver more A. 734 fully explained the reasons for incurring this expense and has provided additional insights 735 on the broader scope of this program. The 2016 expense consists of outside contractor 736 costs to develop specifications for a Document Management System and the implementation of the Records Governance Program. ¹⁵ In response to data request AG 737 738 11.14, the Company has provided initial projections for implementation of various 739 components and phases that could entail operating and capital expenditures exceeding \$15 740 million. 741 This project is a significant undertaking and it is disturbing that the Company was not 742 more thorough in explaining the intent and scope of the project in Mr. Colyer's Direct 743 Testimony. I find it difficult to accept the spending of \$507,000 for the start of a program 744 which has not yet fully defined. My recommendation still is that the Commission should 745 remove the \$507,000 from the Company's forecasted 2016 O&M expense and direct the 746 Company to make a more comprehensive presentation in the next rate case of the cost and 747 benefits of undertaking this project, including a discussion of the relevant work plan, 748 scheduling and budgetary cost control information. 749 Q. ON PAGES 25-31, LINES 525 TO 662, OF HIS REBUTTAL TESTIMONY, MR. 750 COLYER DISCUSSES THE CORROSION CONTROL PAINTING PROGRAM 751 AND ALLEGES THAT YOUR ANALYSIS IS FLAWED. WHAT IS YOUR 752 **RESPONSE?**

¹⁵ AIC response to data request AG 11.15.

753 Mr. Colyer may disagree with my conclusion, but the analysis was performed based on A. 754 information he provided in response to data requests. Therefore, if there is any flaw, it is 755 with the data he has provided. In his Rebuttal Testimony, Mr. Colver explains his 756 forecasted expense for Corrosion Control Painting in more detail than he did in his Direct 757 Testimony or his responses to various data requests. Although this additional detail has 758 clarified certain items, there are still inconsistencies in the information presented. For 759 example, while expenses for painting residential and small commercial meters increase 760 26% in 2014 from 2013, along with the number of meters to be painted, the expense for 761 2015 increases 20% over 2014 while the number of meters to be painted increases only 11.5%. Expenses for 2016 are forecasted to increase an additional 4% with no increase in 762 763 meters to be painted. Similarly, expense for painting of pressure control stations and large 764 meters increased 29% in 2014 and an additional 60% in 2015, when the number of 765 facilities to be painted only increased by 4% and 16%, respectively. 766 Despite the lengthy explanations, Mr. Colyer's Rebuttal Testimony is not persuasive. My 767 conclusion remains that the expense level for Corrosion Control Painting should be set at 2014 levels and the O&M amount proposed by the Company should be reduced by 768 769 \$300,000. 770 Q. ON PAGES 31-37, LINES 663 TO 790, OF HIS REBUTTAL TESTIMONY, MR. 771 COLYER DISCUSSES THE TRANSMISSION LINES ASSESSMENT AND 772 INSPECTION PROGRAM AND REJECTS YOUR COST REDUCTION OF \$1.5 773 MILLION. WHAT IS YOUR RESPONSE?

¹⁶ AIC response to data request AG 11.18 and Ameren Exhibit 22.6.

- 774 **A.** After reviewing Mr. Colyer's Rebuttal Testimony and subsequent responses to data
 775 requests, I accepted the Company's forecasted expense level of \$3.6 million for 2016 and I
 776 withdraw my proposed adjustment of \$1.5 million on this issue. The Company has
 777 disclosed that it will undertake 26 more pipeline integrity digs in 2016 than it has planned
 778 for 2015. This additional activity, which had not been disclosed previously, represent a
 779 53% increase in the number of pipeline digs to be performed and tracks well with the
 780 comparable increase in expense between 2015 and 2016.
- COLYER DISCUSSES THE DAMAGE PREVENTION PROGRAM, ALLEGES
 FLAWS IN YOUR CALCULATIONS, AND REJECTS YOUR COST REDUCTION
 OF \$700,000. WHAT IS YOUR RESPONSE?

ON PAGES 37-45, LINES 791 TO 962, OF HIS REBUTTAL TESTIMONY, MR.

785 A. Mr. Colyer seems to use the "flaws" statement as part of a template in his Rebuttal 786 Testimony when he disagrees with my interpretation of the data that he provided in 787 response to data requests. Again, there is no flaw in my analysis. Quite simply, this is a 788 case of the amount of expense forecasted by the Company for 2016 not tracking with the 789 underlying growth or activity of the programs for which those dollars are to be spent. 790 In his Rebuttal Testimony, Mr. Colyer identifies \$400,000 of cost increases between 2014 791 and 2016 as attributable to the Watch and Protect program, and \$320,000 for the addition of four damage prevention specialists.¹⁷ The total of these two items is approximately the 792 793 same amount I recommended that the Commission should disallow from the Company's 794 proposed level of expense for 2016. After reviewing Mr. Colyer's Rebuttal Testimony and

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¹⁷ Ameren Ex. 22.0 at 39:838-846.

subsequent responses to data requests, I am not convinced that the increase in expense from 2014 to 2016 is necessary. Increases in contractual arrangements for the Watch and Protect program seem relatively minor and could be offset by increased operating efficiencies. The increase of four damage prevention specialists seems unnecessary. The Company plans to undertake home visits to occupants of new residential homes and additional contact with excavators to alert them about safe digging practices. The Company already has a very comprehensive damage prevention program with frequent communications to customers and third party excavators. AG Exhibit 5.12 includes the outline of the program provided by the Company. To increase staffing by 40% seems excessive, is unexplained and unnecessary for any marginal benefits that would be derived. My conclusion remains the same that the 2016 expense level for the Damage Prevention Program should be set at the same level as was actually incurred in 2014.

J. Gas Technology Institute Expense

- 809 Q. ON PAGES 45-49, LINES 963 TO 1054, OF HIS REBUTTAL TESTIMONY, MR.
- 810 COLYER DISCUSSES THE NEED TO JOIN THE GAS TECHNOLOGY
- 811 INSTITUTE. WHAT IS YOUR RESPONSE?
- A. Mr. Colyer mostly repeats the same points made in his Direct Testimony about the
 advantages of joining the OTD program. On page 46, lines 991-996, Mr. Colyer lists some
 of the enhancements he would expect from joining the OTD program. However, in
 response to a data request, he admits that the Company already performs most of these

assessments and methods. His expectation is that the OTD would provide further enhancements. This seems to be primarily wishful thinking at this point. Furthermore, the Company is a member of the American Gas Association and is very active in many of the operational committees that share information on industry practices and methods. AG Exhibit 5.13 includes the Company's discovery response supporting my statements. My conclusion still is that joining the Gas Technology Institute would be of marginal value and customers should not pay this cost until the Company provides actual experience of the value derived from such a membership. **K.** Storage Operations -- Well Expenses PLEASE RESPOND TO MR. COLYER'S REBUTTAL TESTIMONY ON GAS Q. STORAGE WELL EXPENSES. A. In his Rebuttal Testimony (Ameren Exhibit 22.0, pages 49-63, lines 1055-1361), Mr. Colyer provides more detail on the components of total well expenses and discusses what each expense segment entails. However, he does not answer the question I raised in my Revised Direct Testimony of why the Company has escalated the well logging, maintenance and other activities in such a dramatic way since 2013. As I stated in my Revised Direct Testimony, well expenses in total were \$726,000 in 2013. They increased four-fold to \$3.1 million in 2014 and doubled in 2015 to \$6.3 million. The Company now seeks to recover in rates \$6.4 million in the 2016 test year.

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836 Mr. Colver has not provided any evidence that withdrawal or injection wells have 837 deteriorated in performance or that some other problems have arisen recently to require 838 such a high level of logging, maintenance and other expenses. In response to data request 839 AG 11.32, Mr. Colyer stated that the Company had never previously undertaken such a 840 high level of well logging and maintenance activity. Therefore, the question still remains 841 why such a sudden expense ramp up is necessary. 842 My conclusion is that the level of expense incurred in 2014 is still reasonable. Therefore, I 843 reaffirm my recommendation to exclude \$3.3 million from the Company's proposed level 844 of recoverable expense for 2016. 845 846 L. Storage Operations-Compressor Station Expenses 847 Q. PLEASE RESPOND TO MR. COLYER'S REBUTTAL TESTIMONY ON GAS 848 COMPRESSOR STATION EXPENSES. 849 A. In his Rebuttal Testimony (Ameren Exhibit 22.0, pages 64-72, lines 1362-1536), Mr. 850 Colyer provides more detailed explanations of the maintenance work required to the gas 851 storage compressors owned by the Company. Although the additional information provides further insights on how the dollars will be spent, the level of expense forecasted 852 for 2016 is still above the norm and not adequately justified. 853 854 Mr. Colyer disagrees with my characterization of the \$250,000 spent in 2013 as the base 855 amount of maintenance. Yet, that is an obvious definition of a base amount, i.e., the

lowest amount spent in a period to address basic maintenance issues. If there is something unusual about the expense level in 2013 that makes it not representative of a base amount, it certainly has not been specifically addressed in Mr. Colver's Rebuttal Testimony. In my Revised Direct Testimony, I pointed out the \$250,000 as a base amount of maintenance expense and then nearly doubled that amount to give the Company more leeway to perform additional maintenance. My proposed reduction of \$450,000 to the Company's proposed expense level of approximately \$940,000 for 2016 would leave the Company with \$490,000 to spend in 2016. Again, this is twice the base amount spent in 2013 and in line with normalized levels spent in 2014 and 2015. 18 Mr. Colyer points out that some of the compressors date back to 1967 and now require additional maintenance above the level recommended by the manufacturer. If that is the case, Mr. Colyer has not explained why this additional maintenance needs to start in 2016. If this is critical maintenance, why was it not done before 2016? Why is it not done now? Why wait until 2016?

In conclusion, I reiterate the recommendation in my Revised Direct Testimony that the Commission should reduce the forecasted expense for 2016 by \$450,000.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

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A. Yes. However, I reserve the right to amend, revise and supplement my testimony to incorporate new information that may subsequently become available.

¹⁸ On page 64 of his Rebuttal Testimony, Mr. Colyer points out that the 2014 maintenance expense of \$903,405 included an unusual expense to rebuild a storage field compressor at a cost of \$500,000. With this expense factored out, the normalized level of expense for 2014 is \$403,405.